MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the *Chief Financial Officer's Annual Report: FY 2001* for the Centers for Disease Control and Prevention (CDC) and the Agency for Toxic Substances and Disease Registry (ATSDR). We are accountable for the level and quality of the services we provide to the American people; for supporting the mission and goals of our parent agency, the Department of Health and Human Services; for complying with legislation enacted by Congress; and for meeting the President's Governmentwide Management Reforms.

For fiscal year 2001, Congress provided the CDC with $4.7 billion of budgetary authority and ATSDR with $74.8 million. I am proud to report that our agencies have received their fourth straight unqualified opinion from our independent auditors, a recognition of the importance we ascribe financial stewardship. CDC's impeccable scientific integrity and its excellent record of fiscal stewardship and accountability are integrally related.

CDC and ATSDR strive to support HHS' crucial public health mission and the President's Governmentwide Management Reforms, which were announced during FY 2001. We have and will continue to challenge ourselves to be leaders in excellent business practices, practices that will yield discernible results. CDC, in following its Financial Management Excellence Initiative, has been working to enhance and improve its already strong fiscal management practices in a variety of key areas, which include the following:

- *Financial Systems*—CDC works as an integral partner in HHS' initiative to develop a unified financial management system, thereby reducing the number of financial systems that HHS operates and consolidating redundant financial operations.
- *Leadership and Staffing*—CDC strengthened its accounting staff by recruiting and hiring qualified experienced accountants, certified government financial managers, and certified public accountants; appointed a Senior Executive Service-level Deputy Director for Finance and Accounting who will serve as Deputy Chief Financial Officer; and initiated a Financial Management Certificate Program to build fiscal excellence.
- *Fiscal Structure*—Even as new funding and programs added to the complexity of CDC's budget and accounting structures, CDC acted to simplify and streamline its budget structure. CDC also developed, with assistance from specialized consultants and accountants, a new method for allocating indirect costs. CDC plans to implement these measures in FY 2002.
- *Communications*—CDC initiated a Financial Management Certificate Program to educate and train financial management staff and launched an expanded, redesigned Financial Management Office Intranet site to improve the sharing of fiscal procedures, issues, information, and documents.

In addition to these financial management practices, CDC's leadership responded to the President's Governmentwide Management Reforms. Three major initiatives focus on

- *Workforce management*—CDC developed and submitted a "restructuring and delayering plan" that will reduce the number of managers, organizational layers, and the time it takes to make decisions; increase the span of control; and redirect employees to customer service positions.
- *E-Commerce*—CDC continued refining its E-Commerce strategies to ensure secure data communications over the Internet; to reengineer its grants management process; and to follow the lead HHS in conducting E-Commerce business through E-Procurement and E-Grants.
- *CDC Web Site*—CDC constantly strives to improve its Web site by making it easier to use and navigate, providing more interactive tools, and enriching and expanding the content.

The fiscal information contained in this report, together with the performance information reported under the Government Performance and Results Act, offers documentation that CDC is a good investment for taxpayers and that the dollars we spend yield valuable results. CDC and ATSDR will continue to make significant contributions in improving the quality of life for all Americans and in supporting national efforts to bolster our homeland security with the hope that we will never again experience events on the scale of those perpetrated on September 11, 2001, and thereafter.

We appreciate your interest in our *Chief Financial Officer's Annual Report: FY 2001* and hope that you find this document to be a concise and informative overview of our accomplishments, finances, operations, and organization.

Virginia Shankle Bales
Deputy Director for Program Management
and Chief Financial Officer
Centers for Disease Control and Prevention and
Agency for Toxic Substances and Disease Registry

Interpretation of Financial Information

The Deputy Director for Program Management, who also serves as the agency's Chief Financial Officer (CFO), has the responsibility for financial management and related activities at CDC. The Director of CDC's Financial Management Office (FMO) reports to the Deputy Director for Program Management. FMO includes the Accounting, Financial Systems, Legislative, and Budget Branches as well as the Financial Policy and Internal Quality Assurance Activity.

Financial Management and Planning

The Financial Management Office has responsibility for many new and ongoing initiatives, such as developing and implementing accounting and financial policies, systems, and reports; prompt payment; budget formulation and execution; improving reliability of financial information; implementing debt collection; and implementing all financial management legislation including these:

- Prompt Payment Act of 1982,
- Federal Managers Financial Integrity Act (FMFIA) of 1982,
- Chief Financial Officers Act of 1990,
- Cash Management Improvement Act of 1990,
- Government Management and Reform Act of 1994,
- Federal Financial Management Improvement Act of 1996,
- Debt Collection Improvement Act of 1996.

CDC also contributes to HHS' annual Financial Management Status Report and Five Year Plan. That report details the status of and plans for the broad array of financial management initiatives and ongoing work projected in the CDC financial management arena.

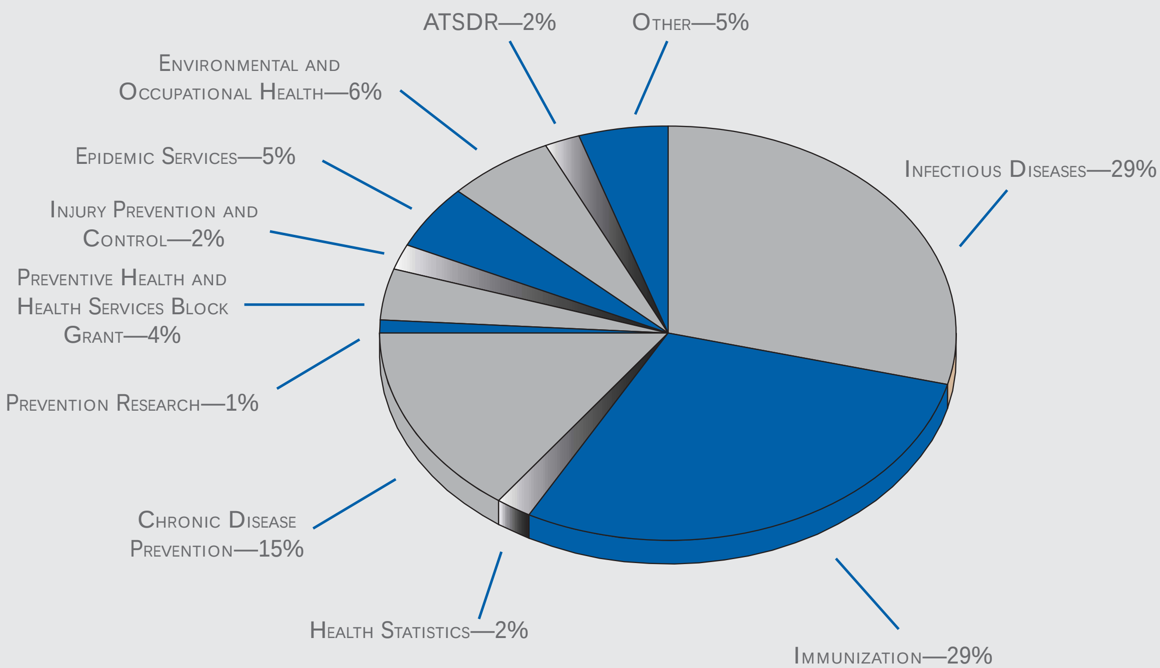
Fiscal Year 2001 Budget

For FY 2001, CDC received a total appropriation of $4.7 billion and ATSDR received a total appropriation of $74.8 million. These appropriations are derived from the following sources:

- annual discretionary appropriations for the annual operation costs of various CDC programs,
- discretionary appropriations for the construction of CDC facilities,
- collections for services provided by various CDC programs,
- allocation transfer from the Centers for Medicare and Medicaid Services.

The following chart displays CDC's FY 2001 budget arrayed by the Government Performance and Results Act (GPRA) programs.

Percentage of CDC Funding by Program Area, FY 2001



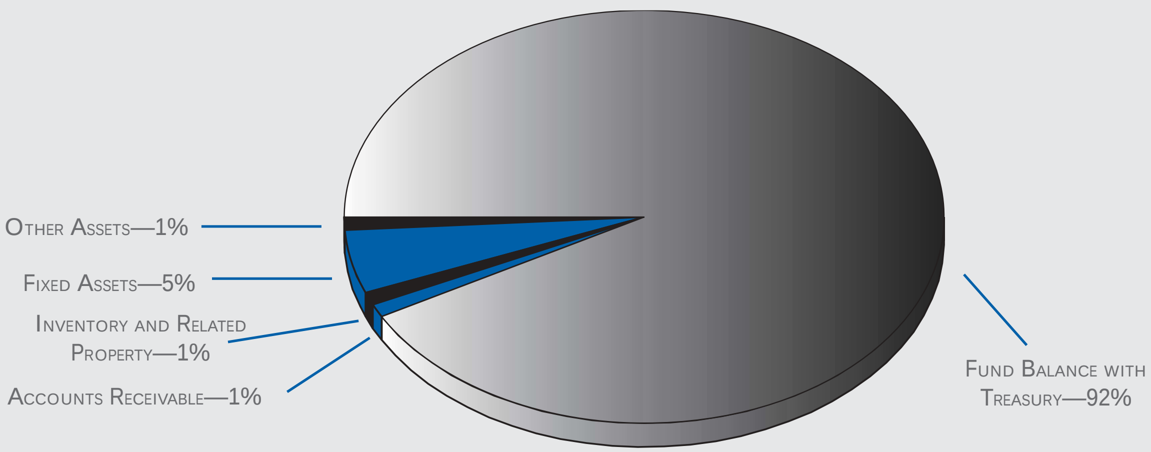
Analysis of Financial Position (Balance Sheet)

Our analysis of the CDC and ATSDR financial statements follows. To simplify the discussion, we have generally discussed the balances for CDC and ATSDR as a consolidated entity.

Assets

CDC had approximately $4 billion in total assets at the end of FY 2001. Fund Balance with Treasury represents the majority of CDC's assets (see following chart). We combined CDC's entity and nonentity assets for analysis because the nonentity portion of CDC's assets is immaterial. These nonentity assets consist mainly of miscellaneous receipts that result from overpayments to vendors, audit disallowances on grants and contracts, and refunds due to the agency from former employees.

CDC Assets, FY 2001



Cash Management and Prompt Payment

The Fund Balance with Treasury, which is the equivalent of "cash in the bank" for the private sector, accounted for 92% of CDC's assets and 91% of ATSDR's assets.

A crucial aspect of managing cash is promptly paying invoices and other payables to minimize the payment of interest and penalties. During FY 2001, CDC paid:

- more than 137,000 invoices valued at $1.5 billion, an increase of 11% over the number of invoices in FY 2000;
- 96% of those invoices on time.

Accounts Receivable

Accounts receivable of $50 million consists primarily of amounts due to CDC under reimbursable agreements or for user fees. Although uncollectible receivables of $114,000 are not a material problem for CDC, efforts to collect those receivables consume a significant amount of staff resources. CDC pursues the standard process of debt collection activities, including aggressive internal follow-up, salary and administrative offset, and referral to the Department of Justice. In addition, to meet the requirements of the Debt Collection Improvement Act of 1996, CDC refers all eligible debts more than 180 days delinquent to a debt management service center that services those debts with the Treasury Offset Program.

Inventory and Related Property

CDC maintains stores of biological products valued at $8.1 million and a stockpile of vaccines valued at $18.5 million. Note 6 provides further information on these components of CDC's asset balances.

General Property, Plant, and Equipment

Property, Plant, and Equipment (PP&E) represents almost $223 million of CDC's assets and $924,000 of ATSDR's assets. CDC's PP&E includes a unique, state-of-the-art laboratory, the headquarters building, several other office and laboratory buildings, and equipment. The PP&E balances for ATSDR consist solely of equipment.

Liabilities

CDC and ATSDR have few liabilities ($508 million) relative to the value of their consolidated assets ($4 billion). CDC's most significant funded liabilities are its accounts payable of $156 million, accrued grant liability of $149 million, and accrued payroll of $40 million.

An accrued grant liability occurs when the year-end grant accrual exceeds advances to grantees outstanding for the year. Accounts payable are primarily for services provided under grants and contracts. Accrued funded payroll is payroll due to employees for services performed in FY 2001 but not paid until the beginning of FY 2002.

Unfunded Liabilities

A noteworthy item in CDC's liabilities is the amount of unfunded liabilities (also called "liabilities not covered by budgetary resources"). These unfunded liabilities are caused by the inherent difference between the way funds are appropriated in the federal budget process and how they are accounted for under accrual accounting requirements.

For FY 2001, CDC's unfunded liabilities totaled $85 million and consisted of annual and compensatory leave liability, capital lease liability, and disability compensation that is accruing for current employees and will require future funding. The federal budget process does not recognize the costs of benefits to be paid in the future to current employees, but instead budgets for those future expenses in the future years when they are actually paid. Consequently, employee expenses (both for the present and future) are recorded in accrual financial statements but are underrepresented in the federal budget.

Net Position

CDC's Net Position (the difference between assets and liabilities on the balance sheet) is broken down into unexpended appropriations and cumulative results of operations. Cumulative results of operations contain the cumulative balances of unfunded expenses and asset purchases.

Analysis of Consolidating Statement of Net Cost

CDC's Consolidating Statement of Net Cost consists of program expenses less the funds earned by those programs under reimbursable agreements or user fee operations. Readers should note that the majority of CDC's programs are funded through appropriations rather than through earnings. Therefore, the net cost for most programs will be the majority of their operating expenses.

Analysis of the Consolidating Statement of Changes in Net Position

The Consolidating Statement of Changes in Net Position begins with net cost, subtracts appropriated capital used, and arrives at one component of the changes in the cumulative results of operations. The difference between net cost and appropriated capital used is unfunded expenses, which includes primarily unfunded annual leave expenses, depreciation, and gains and losses on capital assets. The changes in cumulative results of operations and changes in unexpended appropriations when added to the beginning balance of net position give the current year's ending balance in net position as reported in the balance sheet.

Limitations of Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). Although these statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget (OMB), these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One key implication of this fact is that liabilities cannot be liquidated without legislation that provides the resources to do so.

Report of Independent Auditors and Annual Financial Statements

DEPARTMENT OF HEALTH & HUMAN SERVICES — Office of Inspector General

Date April 12, 2002

From Deputy Inspector General
for Audit Services

Subject Report on the Financial Statement Audit of the Centers for Disease Control and Prevention and Agency for Toxic Substances and Disease Registry for Fiscal Year 2001 (A-17-01-00010)

To Jeffrey P. Koplan, M.D., M.P.H.
Director, Centers for Disease Control and Prevention
and Agency for Toxic Substances and Disease Registry

The attached final report presents the results of the audit of the Fiscal Year (FY) 2001 financial statements of the Centers for Disease Control and Prevention (CDC) and Agency for Toxic Substances and Disease Registry (ATSDR). A certified public accounting firm, Ernst and Young, LLP (EY), undertook the audit in support of the Departmentwide financial statement audit by the Office of Inspector General (OIG) and in accordance with the Government Management Reform Act of 1994. The OIG exercised technical oversight and quality control over the audit.

The audit objectives were to determine whether: (1) the CDC/ATSDR consolidated balance sheets as of September 30, 2001 and 2000, and the related consolidated statements of net cost for the FYs then ended, as well as the consolidated statements of changes in net position and financing, and the combined statement of budgetary resources for the FY ended September 30, 2001, were fairly presented in all material respects; (2) CDC/ATSDR internal controls provided reasonable assurance that transactions were properly recorded and accounted for to permit the preparation of reliable financial statements; and (3) CDC/ATSDR complied with laws and regulations that could have a direct and material effect on the financial statements.

In the auditor's opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CDC/ATSDR as of September 30, 2001 and 2000, and its net costs for the years then ended, as well as the changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for FY 2001 in conformity with accounting principles generally accepted in the United States.

The CDC/ATSDR is commended for sustaining their unqualified opinion. Furthermore, the report on internal controls noted no weakness considered to be material

Page 2 - Jeffrey P. Koplan, M.D., M.P.H.

under standards established by the American Institute of Certified Public Accountants. The report did note, however, certain matters relating to the internal controls

over analysis and development of financial statements, Payment Management System grant accounting, grants oversight, and reimbursable agreements that are considered to be reportable conditions.

The firm noted no instances, exclusive of the Federal Financial Management Improvement Act (FFMIA) of 1996, of noncompliance with laws and regulations which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in Office of Management and Budget Bulletin 01-02. Related to FFMIA, the firm noted no instances where CDC/ATSDR's financial management systems did not substantially comply with Federal financial management systems requirements.

The firm has incorporated comments to the report where appropriate. Officials in your office have concurred with the recommendations and have or are in the process of taking corrective action. We would like to thank you and your staff for the cooperation and assistance in working with us and the firm on the FY 2001 financial statement audit.

We would appreciate your views and the status of any further action taken or contemplated on EY's recommendations within 60 days. Should you wish to discuss this report, please call me or have your staff contact Joseph E. Vengrin, Assistant Inspector General for Audit Operations and Financial Statement Activities, at (202) 619-1157. Please refer to the Common Identification Number A-17-01-00010 in all correspondence relating to this report.

Thomas D. Roslewicz

ERNST & YOUNG

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Washington, D.C. 20036

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REPORT OF INDEPENDENT AUDITORS

To the Inspector General of the
Department of Health and Human Services, and
the Director of the Centers for Disease Control and Prevention and
Agency for Toxic Substance and Disease Registry

We have audited the consolidating balance sheets of the Centers for Disease Control and Prevention (CDC) and Agency for Toxic Substance and Disease Registry (ATSDR), operating divisions of the Department of Health and Human Services as of September 30, 2001 and 2000, and the related consolidating statements of net costs for the fiscal years then ended, and the consolidating statement of changes in net position, consolidated statement of financing, and the combined statement of budgetary resources for the fiscal year ended September 30, 2001. These financial statements are the responsibility of CDC/ATSDR's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits for the years ended September 30, 2001 and 2000 in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. These standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CDC/ATSDR as of September 30, 2001 and 2000, and its net costs for the years then ended and the changes in net position, budgetary resources, and its reconciliation of net costs to budgetary obligations for the fiscal year then ended September 30, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of expressing an opinion on the financial statements referred to in the first paragraph. The information in the Overview of the CDC/ATSDR and the Supplemental Information are not a required part of the CDC/ATSDR financial statements, but are considered supplementary information required

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by OMB Bulletin 97-01, as amended, and 01-09, as applicable, *Form and Content of Agency Financial Statements*. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

However, we were unable to assess control risk relevant to the CDC/ATSDR's governmental transactions and balances, as required by OMB Bulletin 01-02, because reconciliations were unable to be performed with certain Federal trading partners as required by January 7, 2000 technical amendments to OMB Bulletin 97-01.

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 11, 2002, on our consideration of the CDC/ATSDR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ernst & Young LLP

January 11, 2002

Consolidating Balance Sheet

30 2001 2000

	CDC Health	ATSDR Natural Resources and Environment	Combined Totals	Intra-OPDIV Eliminations	FY 2001 Consolidated Totals	FY 2000 Consolidated Totals
Assets						
Intragovernmental						
Fund balance with Treasury (Note 2)	$3,591,935	$61,313	$3,653,248	$ —	$3,653,248	$2,725,290
Accounts receivable, net (Note 3)	36,393	4,719	41,112	1,161	39,951	99,046
Other assets (Note 4)	4,849	—	4,849	—	4,849	7,139
Total intragovernmental assets	**3,633,177**	**66,032**	**3,699,209**	**1,161**	**3,698,048**	**2,831,475**
Accounts receivable, net (Note 3)	9,630	217	9,847	—	9,847	13,474
Cash and other monetary assets (Note 1)	117	—	117	—	117	117
Inventory and related property, net (Note 6)	26,587	—	26,587	—	26,587	26,571
General property, plant, and equipment, net (Note 7)	222,907	924	223,831	—	223,831	176,924
Other assets (Note 4)	2,043	—	2,043	—	2,043	2,103
Total assets	**3,894,461**	**67,173**	**3,961,634**	**1,161**	**3,960,473**	**3,050,664**
Liabilities						
Intragovernmental						
Accounts payable (Note 8)	93	1,108	1,201	1,161	40	14,152
Accrued payroll and benefits (Note 10)	7,154	213	7,367	—	7,367	3,491
Other liabilities (Note 11)	59,393	456	59,849	—	59,849	56,145
Total intragovernmental liabilities	**66,640**	**1,777**	**68,417**	**1,161**	**67,256**	**73,788**
Accounts payable (Note 8)	153,867	2,415	156,282	—	156,282	120,997
Accrued grant liability (Note 5)	146,404	2,747	149,151	—	149,151	128,470
Federal employees' and veterans' benefits (Note 12)	17,654	1,098	18,752	—	18,752	16,372
Accrued payroll and benefits (Note 10)	77,098	4,244	81,342	—	81,342	73,241
Other liabilities (Note 11)	34,503	985	35,488	—	35,488	2,651
Total liabilities	**496,166**	**13,266**	**509,432**	**1,161**	**508,271**	**415,519**
Net position (Note 13)						
Unexpended appropriations	3,226,958	56,346	3,283,304	—	3,283,304	2,505,243
Cumulative results of operations	171,337	(2,439)	168,898	—	168,898	129,902
Total net position	**3,398,295**	**53,907**	**3,452,202**	**—**	**3,452,202**	**2,635,145**
Total liabilities and net position	**$3,894,461**	**$67,173**	**$3,961,634**	**$1,161**	**$3,960,473**	**$3,050,664**

The accompanying notes are an integral part of these financial statements.

Consolidating Statement of Net Cost

F 30 2001 2000

Net program activity costs	CDC Health	ATSDR Natural Resources and Environment	FY 2001 Consolidated Totals	FY 2000 Consolidated Totals
GPRA programs				
Environmental and occupational health	$ 406,413	$75,238	$ 481,651	$ 396,627
Preventive health and health services block grant	87,397	—	87,397	246,224
Chronic disease prevention	622,781	—	622,781	401,453
Epidemic services	114,656	—	114,656	100,063
Health statistics	62,460	—	62,460	37,497
Immunization	1,254,758	—	1,254,758	385,172
Infectious diseases	1,280,868	—	1,280,868	1,090,729
Injury prevention and control	105,681	—	105,681	76,258
Prevention research	15,535	—	15,535	4,957
Net cost of operations	**$3,950,549**	**$75,238**	**$4,025,787**	**$2,738,980**

The accompanying notes are an integral part of these financial statements.

Consolidating Statement of Changes in Net Position

F[illegible] 30 2001

	CDC Health	ATSDR Natural Resources and Environment	Consolidated Total
Net cost of operations	$(3,950,549)	$(75,238)	$(4,025,787)
Financial sources (other than exchange revenues)			
Appropriations used	3,936,989	70,818	4,007,807
Donations—nonexchange revenue	747	10	757
Nonbudgetary transfers-in/out without reimbursement	(151)	38	(113)
Imputed financing from costs absorbed by others	54,472	3,853	58,325
Other nonbudgetary financing sources	(1,893)	(101)	(1,994)
Net results of operations	**39,615**	**(620)**	**38,995**
Net change in cumulative results of operations	39,615	(620)	38,995
Increase (decrease) in unexpended appropriations	774,046	4,016	778,062
Change in net position	813,661	3,396	817,057
Net position, beginning of period	2,584,634	50,511	2,635,145
Net position—end of period	**$ 3,398,295**	**$ 53,907**	**$ 3,452,202**

The accompanying notes are an integral part of these financial statements.

Combined Statement of Budgetary Resources

F 30 2001

	CDC	ATSDR	Combined Total
Budgetary resources			
Budgetary authority	$4,740,023	$74,835	$4,814,858
Unobligated balances, beginning of period	40,187	—	40,187
Spending authority from offsetting collections	192,223	18,650	210,873
Adjustments	4,400	—	4,400
Total budgetary resources	**4,976,833**	**93,485**	**5,070,318**
Status of budgetary resources			
Obligations incurred	4,914,842	93,458	5,008,300
Unobligated balances, available	50,355	27	50,382
Unobligated balances, not available	11,636	—	11,636
Total, status of budgetary resources	**4,976,833**	**93,485**	**5,070,318**
Outlays			
Obligations incurred	4,914,842	93,458	5,008,300
Less: spending authority from offsetting collections and adjustments	(227,698)	(18,650)	(246,348)
Subtotal	4,687,144	74,808	4,761,952
Obligated balance, net: beginning of period	2,675,432	—	2,675,432
Less: obligated balance, net: end of period	(3,540,694)	(30,468)	(3,571,162)
Total outlays	**$3,821,882**	**$44,340**	**$3,866,222**

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Financing

F 30 2001

	CDC	ATSDR	Combined Total
Resources used to finance activities			
Budgetary resources obligated			
Obligations incurred	$4,914,842	$93,458	$5,008,300
Less: Spending authority from offsetting collections and recoveries	(227,698)	(18,650)	(246,348)
Obligations net of offsetting collections and recoveries	4,687,144	74,808	4,761,952
Net obligations	4,687,144	74,808	4,761,952
Other Resources			
Donations and forfeitures of property	747	10	757
Transfers-in/out without reimbursement	(151)	38	(113)
Imputed financing from costs absorbed by others	54,472	3,853	58,325
Other	(1,893)	(101)	(1,994)
Net other resources used to finance activities	53,175	3,800	56,975
Total resources used to finance activities	**4,740,319**	**78,608**	**4,818,927**
Resources used to finance items not part of the net cost of operations			
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	749,798	29,704	779,502
Budgetary offsetting collections and receipts that do not affect net cost of operations:			
Other	(347)	—	(347)
Resources that finance the acquisition of assets	59,281	211	59,492
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(151)	38	(113)
Total resources used to finance items not part of the net cost of operations	**808,581**	**29,953**	**838,534**
Total resources used to finance the net cost of operations	**$3,931,738**	**$48,655**	**$3,980,393**

Consolidated Statement of Financing *(continued)*

F[illegible] 30 2001

	CDC	ATSDR	Combined Total
Components of net cost of operations that will not require or generate resources in the current period			
Components requiring or generating resources in future periods			
Increase in annual leave liability	$ 4,548	$ 425	$ 4,973
Increase in exchange revenue receivable from the public	214	(7)	207
Other	2,243	136	2,379
Total components of net cost of operations that will require or generate resources in the future period	7,005	554	7,559
Components not requiring or generating resources			
Depreciation and amortization	9,913	205	10,118
Other	1,893	25,824	27,717
Total components of net cost of operations that will not require or generate resources	11,806	26,029	37,835
Total components of net cost of operations that will not require or generate resources in the current period	**18,811**	**26,583**	**45,394**
Net cost of operations	**$3,950,549**	**$75,238**	**$4,025,787**

The accompanying notes are an integral part of these financial statements.

Notes to Annual Financial Statements

As of September 30, 2001 and 2000 (Dollars in Thousands)

Note 1: Summary of Significant Accounting Policies

Reporting Entity

The Centers for Disease Control and Prevention (CDC) is considered a separate reporting entity of the Department of Health and Human Services (HHS), a cabinet-level agency of the Executive Department of the United States Government. CDC's main source of funding is through an annual appropriation from Congress. The Agency for Toxic Substances and Disease Registry (ATSDR) is a separate entity within HHS, which is administered by CDC. The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) established the Hazardous Substances Superfund under which ATSDR operates.

The following are CDC's and ATSDR's appropriation accounts including the purpose and availability of funds in those accounts.

Appropriated Funds

75[illegible]0943	[illegible]
75[illegible]0943	[illegible] F [illegible]
75[illegible]0943	[illegible]
75[illegible]0512[illegible]009	[illegible]
75[illegible]1503[illegible]09[illegible]	[illegible] F [illegible]
75F3875[illegible]09	[illegible]
75F3885[illegible]09	[illegible]
75[illegible]5146	[illegible]
75[illegible]6276[illegible]09	[illegible]
75[illegible]1435	[illegible] F [illegible]
75[illegible]3220	[illegible] F [illegible]

Trust Funds

7520[illegible]8145[illegible]09	[illegible]
75[illegible]8252	[illegible]
75[illegible]8606	[illegible] F [illegible]
75[illegible]8250	[illegible]

Basis of Presentation

These financial statements have been prepared from the accounting records of the CDC in conformity with generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, "Form and Content of Agency Financial Statements," as amended, as well as applicable sections of OMB Bulletin 01-09, "Form and Content of Agency Financial Statements." These statements are therefore different from the financial reports, also prepared by CDC, pursuant to other OMB directives that are primarily used to monitor and control CDC's use of budgetary resources. In addition, the FY 2000 balance sheet and corresponding notes were formatted to the FY 2001 formats for comparison.

The financial statements consolidate the balances of 15 appropriations and trust fund accounts, including a number of accounts used for suspense, collection of receipts, and general governmental functions.

Basis of Accounting

CDC's transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to the receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

Entity and Nonentity Assets

Entity assets are those assets that the reporting entity holds and has the authority to use in its operations. Nonentity assets are assets the entity holds but does not have the authority to use. CDC's nonentity assets consist of collections on debts that are due to be returned to the Department of the Treasury General Fund. The CDC financial statements combine the entity and nonentity assets. Note 1 "Summary of Significant Accounting Policies" (see Funds with Treasury and Cash), Note 2 "Fund Balance with Treasury," Note 3 "Accounts Receivable, Net," and Note 4 "Other Assets" report the entity and nonentity assets.

Funds with Treasury and Cash

CDC maintains all cash accounts with the U.S. Department of the Treasury. The account, "Fund Balance with Treasury," represents appropriated, trust, and other funds available to pay current liabilities. The U.S. Treasury processes cash receipts and disbursements for CDC. In addition to the Fund Balance with Treasury, CDC has entity cash assets totaling $117 thousand which include imprest funds and undeposited collections.

Accounts Receivable

Accounts receivable consist of amounts owed to CDC and ATSDR by other federal agencies and the public. Amounts due from the public are presented net of an allowance for loss on uncollectible accounts. The allowance for loss is based on past collection experience.

Advances to Grantees/Accrued Grant Liability

Grant Advances are cash outlays made by CDC to its grantees. An accrued grant liability occurs when the year-end grant accrual exceeds advances to grantees outstanding for the year. Progress payments on work in process are not included in grants.

The CDC's grant programs are classified into two categories, "programs not subject to the expense accrual" and "programs subject to the expense accrual."

Programs Not Subject to the Expense Accrual: These programs are formula grants under which states provide a variety of services or payments to individuals and federal agencies that are precluded from requiring expense reporting. Under these formula grants, states receive a fixed sum pursuant to authorizing legislation and draw down based on cash needs. Accordingly, these programs operate on an allocation basis as opposed to a reimbursable basis. Therefore, they are not subject to an expense accrual.

Programs Subject to the Expense Accrual: For programs subject to the accrual, grantees draw funds (recorded as Advances to Grantees in CDC's accounting systems) as bills or salary payments come due. The grantee pays the bills or salary and reports the payments to CDC quarterly on the SF 272 (recorded as an expense and a reduction to the advance balance in the accounting systems).

The process adopted by CDC to estimate a year-end grant accrual relies on historical spending patterns to predict unreported grantee expenditures. The method breaks the accrual down into two components.

The first component represents the amount of expenditures expected to be reported by the grantees for the fourth quarter ending September 30, 2001. This component is calculated with a data regression model, which uses historical grantee advance and expenditure data.

To estimate the second component, expenses Incurred But Not Reported (IBNR), HHS gathered information on spending patterns from four different groups of grantees to determine if they had unreported expenses at year-end and if so, in what amounts. As a result, HHS determined that grantees typically had year-end IBNR equal to approximately two weeks of annual expenditures. Together, the estimated amount of expenditures expected to be reported by grantees for the fourth quarter ending September 30, 2001, and the estimated IBNR represent the total amount reported for CDC for accrued grants. (Refer to Note 5 "Advances to Grantees/Accrued Grant Liabilities.")

Inventory and Related Property

Inventory and Related Property includes operating materials and supplies held for future use and stockpile materials. Both inventories and operating materials and supplies held for future use are recorded as assets when purchased, and expensed when they are consumed or sold. CDC maintains stores of biological products that are classified as operating materials and supplies held for future use. Biological products are research and diagnostic chemical agents used for laboratory testing and experimentation. Biological products are valued at historical cost using the specific identification method.

CDC is required by the Omnibus Budget Reconciliation Act, effective October 1, 1993, to maintain a vaccine stockpile to meet unanticipated needs for the vaccines. Stockpile materials represent supplies of biological materials and vaccines held for use in case of a national emergency. CDC sells vaccines from the stockpile to state, local, and territorial health departments. The vaccine stockpile is maintained by the companies that manufacture the vaccines and is valued at historical cost using a specific identification cost flow assumption.

General Property, Plant, and Equipment

The basis for recording purchased General Property, Plant, and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to a form and location suitable for its intended use. The cost of PP&E acquired under a capital lease is the amount recognized as a liability for the capital lease at its inception. The cost of PP&E acquired through donation is the estimated fair value when acquired. The cost of PP&E transferred from other federal entities is the net book value of the transferring entity. In general, PP&E with an initial acquisition cost of $25,000 or more and an estimated useful life of two years or greater is capitalized except for internal use software. Internal use software will be capitalized if the initial acquisition cost is $1 million or more. Software is amortized over a useful life of five years using a straight-line basis. PP&E are depreciated on a straight-line basis over the estimated useful life of the item. Land and land rights are not depreciated. Normal maintenance and repair costs are expensed as incurred.

Liabilities

Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. Because CDC is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the sovereign entity.

Liabilities Covered by Budgetary Resources are those liabilities funded by available budgetary resources including (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriation. “Liabilities Covered by Budgetary Resources” and “Liabilities Not Covered by Budgetary Resources” are combined on the balance sheet. The breakout of these resources is presented in Note 8 “Accounts Payable,” Note 10 “Accrued Payroll and Benefits,” Note 11 “Other Liabilities,” and Note 12 “Federal Employees’ and Veterans’ Benefits.”

Liabilities Not Covered by Budgetary Resources are incurred when funding has not yet been made available through Congressional appropriations or current earnings. CDC recognizes such liabilities for employee annual leave earned but not taken, and amounts billed by the Department of Labor for Federal Employees' Compensation Act (FECA) disability payments.

Accounts Payable

Accounts Payable consists of amounts due for goods and services received, progress in contract performance, interest due on accounts payable, and other miscellaneous payables.

Federal Employees' and Veterans' Benefits

Federal employees' and veterans' benefits consist of the actuarial portions of future benefits earned by federal employees and veterans, but not yet due and payable. These costs include pensions, other retirement benefits, and other postemployment benefits. These benefits are normally administered by the Office of Personnel Management and not by CDC. CDC also has employees who participate in the HHS-administered Commissioned Corps Retirement System. Because CDC does not administer the benefit plans, CDC does not recognize any liability on the Balance Sheet for pensions, other retirement benefits, and other postemployment benefits. CDC does, however, recognize the imputed costs and imputed financing related to these benefits in the Consolidating Statement of Net Cost and the Consolidating Statement of Changes in Net Position, respectively.

Pensions: Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other termination of employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most CDC employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under CSRS, CDC makes matching contributions equal to 8.51% of basic pay. For FERS employees, CDC contributes the employer's matching share for Social Security and contributes an amount equal to 1% of employee pay to a savings plan and matches up to an additional 4% of pay. Most employees hired after December 31, 1983, are covered by FERS. The Office of Personnel Management reports on CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to federal employees.

Other Retirement Benefits: Retirement benefits other than pensions (ORB) are all forms of benefits to retirees or their beneficiaries provided outside the pension plan. Examples include health and life insurance. Retirement health care benefits are the primary expenses of this type.

Other Postemployment Benefits: Postemployment benefits other than pensions (OPEB) include all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Inactive employees are those who are not currently rendering services to their employers and who have not been terminated, but who are not eligible for an immediate annuity, including those temporarily laid off or disabled. OPEB includes salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment and workers' compensation benefits paid by the employer entity.

Accrued Payroll and Benefits

"Accrued Workers Compensation (including FECA)" is for amounts due to former or inactive employees and beneficiaries. This can include salary continuation, severance benefits, counseling, and funded unemployment liability for federal employees.

"Accrued Payroll and Leave" is the estimated liability for salaries, wages, funded annual leave, and sick leave that has been earned but is unpaid.

"Payroll Withholding" is the amount withheld from employees' salary for taxes, employee benefit contributions and the employers' portion of payroll taxes and benefit contribution, such as retirement, Thrift Saving Plan, and health and life insurance.

"Liability for Pension Benefits for Administering Agency" is the amount due from administering agencies to eligible federal civilian or military employees or their beneficiaries, to benefit carriers for providing health insurance and for life insurance due to eligible beneficiaries. CDC is an administering agency for the Commissioned Corps. This is not an actuarial liability.

"Other" covers the amounts of unfunded employment related liabilities not covered by the current year's budget authority and not otherwise classified above. See Note 10 "Accrued Payroll and Benefits."

Obligations Related to Canceled Appropriations

Payments may be required of up to 1% of current year appropriations for valid obligations incurred against prior year appropriations that have been canceled. The total potential payments related to canceled appropriations is estimated to be $38.7 million and $29.1 million as of September 30, 2001, and 2000, respectively.

Revenues and Other Financing Sources

Funding for CDC is classified as revenue or other financing sources. Revenue is an inflow of resources that the government demands, earns, or receives by donation. Revenue comes from two sources: exchange transactions and nonexchange transactions. Exchange revenues arise when a government entity provides goods and services to the public or to another government entity for a price. Another term for “exchange revenue” is “earned revenue.” Nonexchange revenues arise primarily from exercise of the government’s power to demand payments from the public (e.g., taxes, duties, fines, and penalties) but also include donations. Other Financing Sources include appropriations used, transfers of assets from other government entities, and imputed financing.

Exchange Revenue

CDC recognizes exchange revenue related to reimbursable agreements when the related expenses are incurred. CDC also collects various user fees to offset the cost of providing services. Exchange revenue is reported in the Consolidating Statement of Net Cost.

Nonexchange Revenue

Nonexchange revenues include income taxes, excise taxes, duties, fines, penalties, and other inflows of resources arising from the government’s power to demand payments, as well as voluntary donations. Nonexchange revenue is recognized when a reporting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets. It is recognized to the extent that the collection is probable and the amount is measurable. Agencies with nonexchange revenue report it on the Consolidating Statement of Changes in Net Position.

Other Financing Sources

Congressional appropriations are the primary funding source for most of CDC's programs. For financial statement purposes, appropriations used are recognized as a financing source as expenses are incurred.

Imputed financing is costs incurred by one federal entity that are paid for by another federal entity. These are also known as inter-entity costs. OMB is limiting the inter-entity costs to be recognized by federal agencies to the following: (1) employee's pension benefits; (2) the health, life insurance, and other benefits for retired employees; (3) other postemployment benefits for retired, terminated, and inactive employees, which include severance payments, training and counseling, continued health care, and unemployment and workers' compensation under the Federal Employees' Compensation Act; and (4) losses in litigation proceedings (FASAB Interpretation No. 2, "Accounting for Treasury Judgment Fund transactions").

Contingencies

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to CDC. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. With the exception of pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not, and the related future outflow or sacrifice is measurable. For pending, threatened, or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely to occur, and the related future outflow or sacrifice of resources is measurable.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Intragovernmental Relationships and Transactions

In the course of its operations, CDC has relationships and financial transactions with numerous federal agencies. The more prominent of those relationships are with other operating divisions of HHS. CDC also has relationships with agencies such as the General Services Administration and the Environmental Protection Agency (EPA), among others. At the governmentwide level, the assets, liabilities, expenses, and revenues related to those transactions are eliminated. Transactions between HHS operating divisions are eliminated in the HHS consolidated financial statements.

Note 2: Fund Balance with Treasury

CDC's undisbursed account balances as of September 30, 2001, and 2000 are listed by fund type. Other funds include balances in deposit, suspense, clearing, and related nonspending accounts.

FY 2001

	Health Entity	ATSDR Entity	Consolidated Total
Trust funds	$ 15,220	$61,313	$ 76,533
Appropriated funds	3,575,033	—	3,575,033
Other fund types	1,682	—	1,682
Total	**$3,591,935**	**$61,313**	**$3,653,248**

FY 2000

	Health Entity	ATSDR Entity	Consolidated Total
Trust funds	$ 42,676	$14,770	$ 57,446
Appropriated funds	2,665,998	—	2,665,998
Other fund types	1,846	—	1,846
Total	**$2,710,520**	**$14,770**	**$2,725,290**

Note 3: Accounts Receivable, Net

CDC's accounts receivable consists mainly of amounts due for goods and services provided to other federal agencies and public and foreign entities. CDC receivables also include miscellaneous refunds due to CDC resulting from overpayments to vendors or to current or noncurrent employees. CDC only establishes an allowance for uncollectible accounts for governmental receivables. The allowance is based on past collection experience and an analysis of the outstanding balances.

Intragovernmental accounts receivable include a receivable for the remaining balance of the annual interagency agreements between EPA and CDC for FY 2000 and prior years. The interagency agreements provide funding for ATSDR and authorize ATSDR to obligate funds. However, for FY 2000 and prior years, ATSDR can only draw from the trust fund as cash is needed to cover disbursements. Thus, the difference between the amount of the agreements and the amount ATSDR has drawn down for disbursements represents a receivable to ATSDR. The remaining component of intragovernmental receivables is primarily from federal agencies pursuant to reimbursable agreements.

CDC's accounts receivable at September 30, 2001, and 2000 are summarized on the next page.

FY 2001

	Ending Balance, Gross Receivables	Allowance	Net Receivables, Combined	Intra-Entity Eliminations	Net Receivables, Consolidated
At September 30, 2001					
Intragovernmental					
Entity					
Health	$ 36,380	$ —	$ 36,380	$1,161	$35,219
Natural resources and the environment	4,719	—	4,719	—	4,719
Nonentity					
Health	13	—	13	—	13
Total Intragovernmental	**$ 41,112**	**—**	**$ 41,112**	**$1,161**	**$39,951**
With the public					
Entity					
Health	9,306	(114)	9,192	—	9,192
Natural resources and the environment	217	—	217	—	217
Nonentity					
Health	438	—	438	—	438
Total, with the public	**$ 9,961**	**$(114)**	**$ 9,847**	**$ —**	**$ 9,847**

FY 2000

	Ending Balance, Gross Receivables	Allowance	Net Receivables, Combined	Intra-Entity Eliminations	Net Receivables, Consolidated
At September 30, 2000					
Intragovernmental					
Entity					
Health	$ 49,314	$ —	$ 49,314	$2,122	$47,192
Natural resources and the environment	51,841	—	51,841	—	51,841
Nonentity					
Health	13	—	13	—	13
Total Intragovernmental	**$101,168**	**—**	**$101,168**	**$2,122**	**$99,046**
With the public					
Entity					
Health	13,400	(110)	13,290	—	13,290
Natural resources and the environment	4	—	4	—	4
Nonentity					
Health	180	—	180	—	180
Total, with the public	**$ 13,584**	**$(110)**	**$ 13,474**	**$ —**	**$13,474**

Note 4: Other Assets

CDC's other assets as of September 30, 2001, and 2000 comprised the following, all of which are considered Entity assets:

	CDC	
	FY 2001	FY 2000
Intragovernmental		
Advances to other federal entities	$4,849	$7,139
Prepayments	—	—
Combined, intragovernmental	4,849	7,139
Less: intra-entity eliminations	—	—
Consolidated, intragovernmental	**$4,849**	**$7,139**
With the public		
Prepayments	—	—
Travel advances and emergency employee payments	1,574	1,901
Advances to others	469	202
Combined, with the public	**$2,043**	**$2,103**

Note 5: Advances to Grantees/Accrued Grant Liability

Grant advances are liquidated upon the grantee's reporting of expenditures on the quarterly SF-272 Report (Federal Cash Transaction Report). In many cases, these reports are received several months after the grantee actually incurs the expense, resulting in an understated grant expense in the financial statements. To mitigate this, HHS developed departmentwide procedures used by its operating divisions to estimate and accrue amounts due grantees for their expenses, both realized and accrued, through September 30, 2001.

At fiscal year-end when CDC records the estimated accrual for amounts due to grantees for their expenses, if the amount of outstanding advances exceeds the amount of the accrual, CDC reports an asset for "Advances to Grantees." Otherwise, CDC reports a liability called "Accrued Grant Liability," equal to the amount that the accrual exceeds the outstanding advances. For additional information on this subject see Note 1 under "Advances to Grantees/Accrued Grants Liability."

All advances other than grant advances are reported in the "Other Assets" category. The detail of these advances is shown in Note 4.

	FY 2001			FY 2000
	CDC	ATSDR		
Grant Advances	**Health**	**Natural Resources and Environment**	**Consolidated Total**	**Consolidated Total**
Grant advances outstanding (before year-end grant accrual)	$ 342,355	$ 4,033	$ 346,388	$ 78,438
Less: estimated accrual for amounts due to grantees	488,759	6,780	495,539	206,908
Net grant advances	**$(146,404)**	**$(2,747)**	**$(149,151)**	**$(128,470)**

Note 6: Inventory and Related Property, Net

CDC's Operating Materials and Supplies Held for Future Use consist of biological products and supplies. Biological products are research and diagnostic chemical agents used for laboratory testing and experimentation. CDC classifies its stores of biological products as held for future use based on the difficulty in producing the products when needed. CDC estimates the value of the stores of biological products pending development of a cost system to capture the actual costs associated with producing the products.

CDC is mandated by law to maintain a vaccine stockpile to meet unanticipated needs for the vaccines, and for national emergencies. Vaccine stockpiles are maintained by the vaccine manufacturers and consist of several types of vaccines. CDC may only sell these vaccines to state, local, or territorial health departments. The health departments order vaccines through CDC, and CDC notifies the manufacturer of the orders. The manufacturer ships the vaccines directly to the health departments. CDC's vaccine stockpile is valued at historical cost using a specific identification cost flow assumption.

CDC's contracts with the vaccine manufacturers generally state that a manufacturer's excise tax will be paid upon delivery of the vaccines. The excise tax funds a vaccine injury compensation program that is part of the National Vaccine Injury Compensation Program (VICP). The VICP, established by the Public Health Service Act, provides no-fault compensation for certain individuals who have been injured by specific childhood vaccines. The Taxpayer Relief Act of 1997 provides that the excise tax on all covered vaccines is $0.75 per dose and that combinations of vaccines are subject to an excise tax, which is the sum of amounts for each vaccine included in the combination. The excise tax is paid by the health departments when they purchase the vaccines from CDC. Based on the number of doses in the vaccine stockpile at the end of FY 2001, the excise tax payable is $9,824.

CDC's inventory and related property, net at September 30, 2001, and 2000 are summarized in the following table.

	CDC	
	FY 2001	**FY 2000**
Operating materials and supplies (OMS) held for use	$ —	$ —
OMS held for future use	8,099	12,719
Excess, obsolete, and unserviceable OMS	—	(4,661)
Total OMS	**8,099**	**8,058**
Stockpile materials and supplies	—	—
Stockpile materials held for emergency	18,488	18,513
Total inventory and related property, net	**$26,587**	**$26,571**

Note 7: General Property, Plant, and Equipment, Net

Balances for the major categories of CDC Property, Plant, and Equipment at September 30, 2001, and 2000 are in the following table.

Property, Plant, and Equipment	FY 2001 Depreciation Method	FY 2001 Estimated Useful Live	FY 2001 Acquisition Cost	FY 2001 Accumulated Depreciation	FY 2001 Net Book Value	FY 2000 Net Book Value
Land and land rights	N/A	N/A	$ 19,882	$ —	$ 19,882	$ 19,848
Construction in progress	N/A	N/A	66,632	—	66,632	23,839
Buildings, facilities, & other structures	Straight line	31.5 years	159,105	(91,392)	67,713	67,427
Equipment	Straight line	3–20 years	93,556	(43,738)	49,818	44,560
Internal use software	Straight line	5 years	—	—	—	685
Capital leases	Straight line	31.5 years	22,705	(3,843)	18,862	19,583
Leasehold agreements	Straight line	various	—	—	—	—
CDC total			361,880	(138,973)	222,907	175,942
Equipment, ATSDR	Straight line	7–15 years	1,995	(1,071)	924	982
Total			**$363,875**	**$(140,044)**	**$223,831**	**$176,924**

See the disclosure, "Schedule of Deferred Maintenance" (page 117) in the Required Supplementary Information section for information on deferred maintenance for General Property, Plant, and Equipment.

Note 8: Accounts Payable

For FY 2001, intragovernmental accounts payable of $40 and accounts payable with the public of $156,282 are covered by budgetary resources. For FY 2000, intragovernmental accounts payable of $14,152 and accounts payable with the public of $120,997 were covered by budgetary resources.

Note 9: Environmental and Disposal Costs

CDC management recognizes the possibility that a liability may exist for the clean up of sites belonging to CDC. An estimate of potential liability is not determinable at this time.

Note 10: Accrued Payroll and Benefits

Accrued funded payroll is the estimated liability for salaries and wages and other benefits of civilians and commissioned officers that have been incurred but are unpaid at the end of the fiscal year. CDC's accrued payroll and benefits at September 30, 2001, and 2000 are summarized in the table on the next page.

FY 2001

	CDC Health	ATSDR Natural Resources and Environment	Consolidated Total
Intragovernmental			
Liabilities covered by budgetary resources			
Accrued payroll	$ 3,827	$ 213	$ 4,040
Accrued workers compensation	3,327	—	3,327
Total liabilities covered by budgetary resources	7,154	213	7,367
Total, Intragovernmental	**7,154**	**213**	**7,367**
With the public			
Liabilities covered by budgetary resources			
Accrued payroll	33,816	1,979	35,795
Total liabilities covered by budgetary resources	33,816	1,979	35,795
Liabilities not covered by budgetary resources			
Accrued leave	43,282	2,265	45,547
Total liabilities not covered by budgetary resources	43,282	2,265	45,547
Total, with the public	**$77,098**	**$4,244**	**$81,342**

FY 2000

	CDC Health	ATSDR Natural Resources and Environment	Consolidated Total
Intragovernmental			
Liabilities covered by budgetary resources			
Accrued payroll	$ 3,331	$ 160	$ 3,491
Total liabilities covered by budgetary resources	3,331	160	3,491
Total, Intragovernmental	**3,331**	**160**	**3,491**
With the public			
Liabilities covered by budgetary resources			
Accrued payroll	31,285	1,605	32,890
Total liabilities covered by budgetary resources	31,285	1,605	32,890
Liabilities not covered by budgetary resources			
Accrued leave	38,511	1,840	40,351
Total liabilities not covered by budgetary resources	38,511	1,840	40,351
Total, with the public	**$69,796**	**$3,445**	**$73,241**

Note 11: Other Liabilities

Other liabilities covered by budgetary resources include deferred revenue that represents advances received from other federal agencies and the public under reimbursable agreements in excess of expenses incurred in the execution of the agreements. CDC's Other Liabilities at September 30, 2001, and 2000 are summarized in the following table.

	FY 2001			FY 2000
	CDC	ATSDR		
	Health	Natural Resources and Environment	Consolidated Total	Consolidated Total
Intragovernmental				
Liabilities covered by budgetary resources				
Liabilities for deposit funds, clearing accounts and undeposited collections	$14,760	$ —	$14,760	$ —
Deferred revenue	16,666	347	17,013	35,366
Other	7,167	109	7,276	—
Total intragovernmental liabilities covered by budgetary resources	**38,593**	**456**	**39,049**	**35,366**
Liabilities not covered by budgetary resources				
Capital lease liability	20,784	—	20,784	20,779
Other	16	—	16	—
Total intragovernmental liabilities not covered by budgetary resources	**20,800**	**—**	**20,800**	**20,779**
With the public				
Liabilities covered by budgetary resources				
Liabilities for deposit funds, clearing accounts and undeposited collections	388	—	388	115
Deferred revenue	2,314	—	2,314	2,215
Other	31,801	985	32,786	321
Total liabilities with the public covered by budgetary resources	**34,503**	**985**	**35,488**	**2,651**
Total	**$93,896**	**$1,441**	**$95,337**	**$58,796**

Note 12: Federal Employees' And Veterans' Benefits

The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined by a method that uses historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions used for discounting in 2001 was 5.21% in year 1, 5.21% in year 2 and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs), and medical inflation factors (consumer price index medical or CPIMs) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year dollars. The compensation COLAs and CPIMs used in projections were as follows:

FY	COLA	CPIM
2001	3.33%	4.44%
2002	3.00%	4.15%
2003	2.56%	4.09%
2004	2.50%	4.09%
2005+	2.50%	4.09%

Workers' compensation benefits are liabilities not covered by budgetary resources. CDC's Federal Employees' and Veterans' Benefits at September 30, 2001, and 2000 were as follows:

	FY 2001	FY 2000
With the Public		
Liabilities not covered by budgetary resources		
Future workers'compensation benefits	$18,752	$16,372
Total federal employees' and veterans' benefits	$18,752	$16,372

Note 13: Net Position

Net position is the difference between assets and liabilities. The section contains two line items: Unexpended Appropriations, including unobligated appropriations and undelivered orders, and Cumulative Results of Operations. Unobligated appropriations are either available for obligation or not available (permanently or temporarily) pursuant to a specific provision in law. Undelivered orders represent appropriations obligated (i.e., legally reserved) for the amount of goods or services ordered but not yet received. Cumulative results of operations represent the net difference between (1) expenses and losses and (2) financing sources, including appropriated capital used, and revenues and gains since the inception of the activity. CDC's Net Position as of September 30, 2001, and 2000 are summarized in the following table:

	FY 2001					FY 2000
	CDC			ATSDR		
		Health		Natural Resources and Environment		
	Appropriated Funds	Trust Funds	Other Funds	Trust Funds	Consolidated Totals	Consolidated Totals
Unexpended appropriations						
Unobligated:						
Available	$ 46,424	$2,403	$1,528	$ 27	$ 50,382	$ 28,021
Unavailable	11,626	10	—	7,120	18,756	17,317
Undelivered orders	3,161,010	3,733	224	49,199	3,214,166	2,459,905
Subtotal	3,219,060	6,146	1,752	56,346	3,283,304	2,505,243
Cumulative results of operations	170,459	765	113	(2,439)	168,898	129,902
Net position	**$3,389,519**	**$6,911**	**$1,865**	**$53,907**	**$3,452,202**	**$2,635,145**

Note 14: Leases

Capital Leases: CDC entered into an agreement with the General Services Administration (GSA) for the lease-purchase of two buildings. Under this agreement, ownership of the buildings will transfer to CDC at the end of the lease period. Capitalized assets acquired under capital lease agreements and their related liability are reported at the present value of the minimum lease payments. The imputed interest is $20,842.

Operating leases: CDC also has commitments under four cancelable leases for office, laboratory space, and land. The lease for office space terminates in FY 2004, the laboratory lease terminates in FY 2002, and the two land leases terminate in FY 2001 and FY 2008. CDC's projected rent expense pertaining to these four leases is as follows:

Lease Table 1

Summary of assets under capital lease	FY 2001	FY 2000
Land and buildings	$22,705	$22,705
Less: accumulated amortization	(3,843)	(3,122)
Assets under capital lease	**$18,862**	**$19,583**

Lease Table 2

Future minimum lease payments	FY 2001 Capital Leases	FY 2001 Operating Leases	FY 2000 Capital Leases	FY 2000 Operating Leases
Year 1	$ 1,759	$ 694	$ 1,759	$ 694
Year 2	1,759	209	1,759	688
Year 3	1,758	209	1,759	206
Year 4	1,758	202	1,758	186
Year 5	1,758	154	1,758	154
Later years	32,834	307	34,242	461
Total minimum lease payments	$ 41,626	$1,775	$ 43,035	$2,389
Less imputed interest	(20,842)		(22,256)	
Total capital lease liability	**$ 20,784**		**$ 20,779**	

Note 15: Consolidated Gross Cost and Exchange Revenue by Budget Functional Classification

CDC's consolidated gross cost and exchange revenue by budget functional classification for the fiscal years ended September 30, 2001, and 2000 are summarized as follows:

	FY 2001			FY 2000
	CDC	ATSDR		
	Health	Natural Resources and Environment	Consolidated Total	Consolidated Total
Intragovernmental				
Gross cost	$ 410,439	$20,348	$ 430,787	$ 358,405
Less: exchange revenue	189,581	10,981	200,562	159,019
Net cost—intragovernmental	220,858	9,367	230,225	199,386
With the public				
Gross cost	3,731,688	66,074	3,797,762	2,550,447
Less: exchange revenue	1,997	203	2,200	10,853
Net cost—with the public	3,729,691	65,871	3,795,562	2,539,594
Totals				
Gross cost	4,142,127	86,422	4,228,549	2,908,852
Less: exchange revenue	191,578	11,184	202,762	169,872
Net Cost of Operations	**$3,950,549**	**$75,238**	**$4,025,787**	**$2,738,980**

Note 16: Budgets and Budgetary Accounting

Adjustments to budgetary resources represent recoveries and cancellations of expired accounts. Recoveries are cancellations or downward adjustments of prior year obligations that were not outlayed. During FY 2001, CDC recoveries totaled $35,444.

The primary source of funding for CDC is the annual disease control research and training appropriation from Congress. That appropriation totaled $3,868,027 for FY 2001, and the majority of those funds are available for obligation only in FY 2001. During FY 2001, Congress rescinded $2,317 of the annual appropriation.

Of the total appropriation, $175,000 belongs in a multiyear account and is available until expended for equipment and construction and renovation of facilities. CDC also obtained $192,223 of budgetary authority under reimbursable agreements with other federal agencies and the public. Additionally, CDC received a FY 2001 allocation transfer of $857,233 from the Centers for Medicare and Medicaid Services. CDC received gifts and donations totaling $3,434 in FY 2001. ATSDR received $74,835 in funds available for obligation in FY 2001. ATSDR also obtained $18,650 of budgetary authority under reimbursable agreements with other federal agencies and the public.

In accordance with OMB Bulletin 01-09, Section 9.36, CDC did not include ATSDR's allocation transfer appropriation from EPA on its statement of budgetary resources. In FY 2000, the transfer had an unobligated balance of $6,502 and obligated balance of $60,631 that were not carried forward to the FY 2001 beginning balances. In addition, CDC's beginning unobligated balance is net of a transfer-in of prior year balance totaling $1,606 and a transfer-out of prior year balance totaling ($255).

Note 17: Statement of Financing

Liabilities not covered by budgetary resources are disclosed in Notes 10, 11, and 12 and include accrued leave of $45,547, capital leases of $20,784, actuarial FECA liability of $18,752 and other of $16. For FY 2000, accrued leave was $40,351, capital leases were $20,779 and actuarial FECA liability was $16,372. Management expects that those items will be funded by future financing sources.

In accordance with OMB Bulletin 01-09, CDC reported only the proprietary accounts for its ATSDR allocation transfer appropriation from EPA for pollution control and abatement. The majority of the "Other" line under the section "Components Not Requiring or Generating Resources" on the statement of financing is the difference between the budgetary and proprietary accounts totaling $25,723.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

RESEARCH AND DEVELOPMENT

CDC does not currently maintain expense data for costs related to intramural research and development (R&D). The total estimated outlays for intramural R&D were $204,378 (FY 1997), $220,058 (FY 1998), $236,015 (FY 1999), $274,885 (FY 2000), and $270,478 (FY 2001). The total estimated outlays for extramural R&D were $118,612 (FY 1997), $178,431 (FY 1998), $197,292 (FY 1999), $230,137 (FY 2000), and $286,422 (FY 2001). HIV/AIDS Prevention, Infectious Diseases, and Environmental and Occupational Health were the primary areas where R&D was invested.

Other Supplementary Information

Schedule of Public and Governmental Costs by Program

F[illegible] 30 [illegible] 2001 [illegible] 2000

Net Program Activity Costs	Intragovernmental Gross Cost	Intragovernmental Less: Revenue Earned	Intragovernmental Intra–OPDIV Eliminations[1]	Intragovernmental Net	With the Public Gross Cost	With the Public Less: Revenue Earned	With the Public Net	FY 2001 Net Program Costs	FY 2000 Net Program Costs
GPRA programs									
Environmental and occupational health									
CDC	$ 73,974	$ 51,027	$6,579	$ 29,526	$ 383,597	$ 131	$ 383,466	$ 412,992	$ 316,178
ATSDR	20,348	10,981	(6,579)	2,788	66,074	203	65,871	68,659	80,449
Preventive health & health services block grant	1,268	39	—	1,229	86,168	—	86,168	87,397	246,224
Chronic disease prevention	45,594	11,214	—	34,380	588,430	29	588,401	622,781	401,453
Epidemic services	30,909	12,387	—	18,522	96,166	32	96,134	114,656	100,063
Health statistics	57,257	85,210	—	(27,953)	92,142	1,729	90,413	62,460	37,497
Immunization	33,355	1,133	—	32,222	1,222,540	4	1,222,536	1,254,758	385,172
Infectious diseases	157,428	27,859	—	129,569	1,151,370	71	1,151,299	1,280,868	1,090,729
Injury prevention and control	10,393	708	—	9,685	95,997	1	95,996	105,681	76,258
Prevention research	261	4	—	257	15,278	—	15,278	15,535	4,957
Net cost of operations	$430,787	$200,562	$ —	$230,225	$3,797,762	$2,200	$3,795,562	$4,025,787	$2,738,980

[1]The intra-OPDIV eliminations represent elimination of revenue of CDC and costs of ATSDR.

Schedule of Significant Program Costs

F 30 2001 2000

Gross Program Activity Costs	FY 2001 Grants and Transfer Payments	FY 2001 Other Costs	FY 2001 Gross Program Costs	FY 2000 Gross Program Costs
GPRA programs				
Environmental and occupational health				
CDC	$ 154,194	$ 303,377	$ 457,571	$ 361,192
ATSDR	12,217	74,205	86,422	87,652
Chronic disease prevention	456,896	177,128	634,024	408,958
Epidemic services	23,268	103,807	127,075	109,513
Health statistics	4,402	144,997	149,399	121,737
Immunization	341,412	914,483	1,255,895	385,172
Infectious diseases	779,005	529,793	1,308,798	1,106,678
Injury prevention and control	68,180	38,210	106,390	76,769
Preventive health and health services block grant	82,348	5,088	87,436	246,224
Prevention research	13,459	2,080	15,539	4,957
Total significant program costs	**$1,935,381**	**$2,293,168**	**$4,228,549**	**$2,908,852**

Statement of Budgetary Resources by Account

F 30 2001

	CDC						ATSDR	
	Disease Control, Research, &Training	Disease Control, Research, &Training (no-year)	Vaccines for Children (no-year)	Cooperative Research and Development	Gifts and Donations	Violent Crime	Hazardous Substances Superfund	Combined Total
Budgetary resources								
Budgetary authority	$3,693,142	$185,000	$ 857,233	$ 1,215	$ 3,433	$ —	$74,835	$ 4,814,858
Unobligated balances: beginning of period	14,863	22,871	—	1,745	887	(179)	—	40,187
Spending authority from offsetting collections	171,826	20,397	—	—	—	—	18,650	210,873
Adjustments	3,671	492	—	1	47	189	—	4,400
Total budgetary resources	3,883,502	228,760	857,233	2,961	4,367	10	93,485	5,070,318
Status of budgetary resources								
Obligations incurred	3,864,069	190,165	857,211	1,433	1,964	—	93,458	5,008,300
Unobligated balances: available	7,807	38,595	22	1,528	2,403	—	27	50,382
Unobligated balances: not available	11,626	—	—	—	—	10	—	11,636
Total, status of budgetary resources	3,883,502	228,760	857,233	2,961	4,367	10	93,485	5,070,318
Outlays								
Obligations incurred	3,864,069	190,165	857,211	1,433	1,964	—	93,458	5,008,300
Less: spending authority from offsetting collections and adjustments	(206,572)	(20,889)	—	(1)	(47)	(189)	(18,650)	(246,348)
Subtotal	3,657,497	169,276	857,211	1,432	1,917	(189)	74,808	4,761,952
Obligated balance, net: beginning of period	2,570,062	65,708	—	97	1,216	38,349	—	2,675,432
Less: obligated balance, net: end of period	(3,055,577)	(179,138)	(293,983)	(215)	(971)	(10,810)	(30,468)	(3,571,162)
Total outlays	**$3,171,982**	**$ 55,846**	**$563,228**	**$1,314**	**$2,162**	**$27,350**	**$44,340**	**$3,866,222**

Schedule of Deferred Maintenance

[illegible] 30 [illegible] 2001 [illegible]

CDC has identified deferred maintenance in two categories. The primary method used in measuring deferred maintenance for all classes is the condition assessment survey.

Category	Asset Condition (See explanation[1])	Cost to Return to Acceptable Condition
Buildings	4	$37,703
Other structures	4	3,986
Total		**$41,689**

[1]Asset condition is assessed on a scale of 1–5 as follows: Excellent = 1; Good = 2; Fair = 3; Poor = 4; Very Poor = 5

A "fair" or "3" rating is considered acceptable operating condition. The majority of the assets for which CDC has deferred maintenance have been classified as "poor"; however, certain assets within the "Buildings" category had ratings of "good" or "fair." The "poor" rating was estimated to be the average condition of the assets in each category.

Schedule of Intragovernmental Assets

[illegible] 30 [illegible] 2001 [illegible]

Agency	Fund Balance with Treasury	Accounts Receivable	Advances and Prepayments	Combined Total
Department of the Treasury	$3,653,248	$ —	$ —	$3,653,248
Department of Health and Human Services	—	19,128	3,649	22,777
Department of Energy	—	6,408	—	6,408
Department of Defense	—	3,183	—	3,183
All other federal agencies	—	12,393	1,200	13,593
Total	**$3,653,248**	**$41,112**	**$4,849**	**$3,699,209**

Schedule of Intragovernmental Liabilities

[illegible] 30 [illegible] 2001 [illegible]

Agency	Accounts Payable	Accrued payroll and Benefits	Other	Combined Total
Department of Health and Human Services	$1,161	$ —	$21,914	$23,075
General Services Administration	39	—	23,777	23,816
Office of Personnel Management	—	4,040	—	4,040
Department of Energy	—	—	6,460	6,460
All other federal agencies	1	3,327	7,698	11,026
Total	**$1,201**	**$7,367**	**$59,849**	**$68,417**

Schedule of Intragovernmental Exchange Revenue

30 2001

Agency	Earned Revenue
Department of Health and Human Services	$134,941
Department of Energy	23,603
Agency for International Development	18,785
All other federal agencies	23,233
Total	**$200,562**

Agency	Gross Cost
Department of Commerce	$ 27,087
Department of State	35,989
Department of Treasury	28,846
Department of Health and Human Services	101,827
General Services Administration	56,462
Office of Personnel Management	124,507
All other federal agencies	56,069
Total	**$430,787**

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OTHER AUDITOR REPORTS AND MANAGEMENT RESPONSE

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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL

To the Inspector General of the
Department of Health and Human Services, and
the Director of the Centers for Disease Control and Prevention and
Agency for Toxic Substances and Disease Registry

We have audited the consolidating balance sheets of the Centers for Disease Control and Prevention (CDC) and Agency for Toxic Substance and Disease Registry (ATSDR) as of September 30, 2001 and 2000 and the related consolidating statements of net costs for the fiscal years then ended and the consolidating statement of changes in net position, consolidated statement of financing, and combined statement of budgetary resources for the fiscal year ended September 30, 2001; and have issued our report thereon dated January 11, 2002. We conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits, we considered CDC's internal control over financial reporting by obtaining an understanding of the agency's internal control, determined whether internal control had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 01-02. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers Financial Integrity Act, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

The management of the CDC/ATSDR is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs on internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the

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United States; and data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control, errors, and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no material weaknesses however, we noted certain matters discussed in the following paragraphs involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

Analysis and Development of Financial Statements (Modified Repeat Condition)

The CDC/ATSDR's central accounting system is not fully integrated with the reimbursable agreements subsidiary system, and does not facilitate the preparation of the financial statements. Currently, the financial reporting system requires several adjusting journal entries and a significant number of manually intensive processes prior to reporting accurate financial statements. The amount of human effort required during the financial statement process often results in untimely reporting of financial information that supports management decision-making.

Although the CDC/ATSDR has taken significant initial steps in implementing a formal program providing for the periodic review and the preparation of the CDC/ATSDR's consolidating financial statements, quarterly reviews of consolidated financial statements did not take place in fiscal year 2001. Additionally, as discussed in this report, there are certain conditions, including controls over reimbursable agreements, grant oversight, and development of accurate overhead rates, that continue to affect the

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reliability of financial information, that if not addressed will continue to hinder the financial reporting process.

Additionally, certain reconciliation processes relating to reimbursable agreements were not adequately performed on a timely basis to ensure that differences between subsidiary systems and the general ledger were properly identified, researched, and resolved and that account balances were complete and accurate.

The following factors have lead to this condition.

- The CDC/ATSDR's financial reporting system is not fully integrated with the general ledger accounting system. The CDC/ATSDR currently downloads the detailed general ledger to a Microsoft Access™¸ database, which contains separate tables for each individual statement. This database does not automate the financial statement compilation, but simply summarizes the amounts according to the budget activity codes. The CDC/ATSDR enters adjusting entries several times to each individual table and budget activity and the CDC/ATSDR should review each individual table to ensure appropriate postings
- Reporting requirements at the budget activity level increased the volume of the information within the reporting system. This ultimately leads to journal entries with several postings to multiple tables within the financial reporting system.
- Inadequate reconciliations relating to the reimbursable agreements throughout the year increased the effort needed to complete accurate and timely financial statements at year-end. As we noted below under our reimbursable agreements finding, the CDC/ATSDR found it necessary to reconstruct the balances of many reimbursable agreements to provide accurate financial information.

We noted that the CDC/ATSDR did implement additional United States Standard General Ledger Accounts into there general ledger system during the year, which helps reduce the additional analysis of accounts in order to compile the financial statements. Also the CDC/ATSDR automated the compilation of the balance sheet within the financial reporting system further reducing manual intervention. Staffing and management within the Financial Management Office (FMO) also began to stabilize, although pending increases in CDC funding will challenge the ability of the FMO to execute its responsibilities with the existing resources.

Recommendations

We recommend that the CDC/ATSDR examine its related business processes and activities, and specifically consider the following recommendations.

- Implement a formal financial reporting system that is fully integrated with the general ledger. We understand that the Department of Health and Human Services

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(DHHS) is currently evaluating agency-wide financial systems in an effort to replace the existing system for their components. Pending implementation of such a system, we believe the CDC/ATSDR continue to improve its existing processes.

- Continue to improve the training and level of personnel responsible for financial reporting and statement preparation.
- Consider implementing the dual accounting period function during the fiscal year 2002 closing. The CDC/ATSDR's current system provides the capability of maintaining two accounting periods to be open at the same time ("dual accounting period" function when, for example, fiscal year 2001 could have remained open while still accounting for all fiscal year 2002 transactions). The implementation of this feature during the 2002 year-end closing will significantly decrease the number of top-side accounting adjustments currently required and will greatly simplify accounting for beginning balances.
- Complete its on-going effort to implement a formal program providing for the periodic review of its consolidating financial statements.
- Consider the automation of the preparation of month-end financial statements.
- Develop guidelines to streamline the period-end and year-end closing process.

Controls Over Grants – PMS Grant Accounting (Modified Repeat Condition)

The CDC/ATSDR utilizes the Payment Management System (PMS), maintained by the Division of Payment Management (DPM) as its subsidiary system to process grant advances and expenditures for the grantee community.

Currently, there is no system in place to compare financial and progress reports, which are submitted by grantees to accounting input received from the PMS on a grantee or grant specific basis to ensure consistency between grantee reports and amounts recorded in the accounting records.

Without periodic review procedures comparing grantee reports to the PMS advances and expenses, the CDC/ATSDR may be unable to determine whether

- Grantees are withdrawing funds in excess of the guidance;
- The PMS's estimates for the advances are reasonable;
- Information provided by the grantees validate the information reported by the PMS, which is a significant detect control over grant expenditures.

Recommendations

The CDC/ATSDR obtained contractor assistance during the fiscal year 2001 to evaluate the grant systems and control procedures, and interaction between the CDC/ATSDR and DPM for the PMS information. However, procedures to resolve this issue during the fiscal year were not fully implemented. We recommend that the CDC/ATSDR continue its improvement of grants systems and monitoring and ensure that information received from the PMS is compared/reconciled on a regular basis to information reported to CDC by grantees. In addition, CDC should perform independent financial review procedures designed to validate the integrity of data provided by the PMS.

Reimbursable Agreements (Modified Repeat Condition)

In fiscal year 2001 the CDC/ATSDR made advances in implementing practices to reconcile reimbursable subsidiary detail records and the related General Ledger Control accounts. However, we noted that the CDC/ATSDR did not consistently perform periodic reconciliations of reimbursable agreement subsidiary records and the general ledger during fiscal year 2001. As a result at year-end, the CDC/ATSDR was again forced to undertake a labor-intensive process to reconstruct the reimbursable agreement subsidiary ledger to identify corrections that are necessary to adjust the subsidiary at an individual reimbursable agreement basis. Continuing concerns identified during the audit include the following:

- Further training and formalized policies and procedures are needed to facilitate the appropriate recording and maintenance of reimbursable agreements.
- The CDC/ATSDR relied on a manual process, which was inefficient and prone to errors to record and maintain reimbursable agreements.
- The CDC/ATSDR did not perform reconciliations of subsidiary ledgers to the general ledger on a monthly basis. In addition, the reconciliation when performed was insufficient to adequately research and resolve errors.

Recommendations

We recommend that the CDC/ATSDR examine its related business processes and activities, and specifically consider:

- Developing formalized policies and procedures to record and maintain reimbursable agreements. The CDC obtained contractor assistance to develop these policies and procedures, which are not yet implemented.
- Continuing current efforts to fully automate the process to ensure the timeliness of data, the development of accurate period-end cutoffs, and the development of effective, monthly reconciliation procedures.

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- Providing additional training and oversight for personnel responsible for recording and maintaining reimbursable agreements.

Controls Over Grants—Grant Oversight (Repeat Condition)

The CDC/ATSDR does not have a formal policy regarding minimum technical oversight requirements relating to grants. As a result, field personnel must make the ultimate determination of required grant oversight, which may not agree with top management's intentions and/or the mission of the Department of Health and Human Services (DHHS) and/or the CDC/ATSDR. Grant expense is the CDC/ATSDR's most significant expenditure which historically accounted for over 50% of total expenses. To a large extent, the execution of the operating aspects of any grant are outside the CDC/ATSDR's direct control, more indirect control procedures must be adopted to ensure that grants are appropriately executed and accounted for by the CDC/ATSDR.

In general, there are three major controls in place at the CDC/ATSDR:

- Initial screening and evaluation controls (e.g., pre-award investigations and evaluations of a general "due diligence" nature). This is the CDC/ATSDR's primary prevent control.
- Oversight procedures performed by the Grants Management Office as well as by operating/program CDC personnel (the primary detect control to ensure that the grant is being used to accomplish the purpose/mission for which it was granted).
- Single Audit Reports (the primary detect control to ensure that grant expenditures are made in accordance with fiscal and budgetary requirements).

Recommendations

We continue to be concerned with certain aspects of the CDC/ATSDR's operational oversight over grants and believe the CDC/ATSDR should consider the following.

- Issue CDC/ATSDR level guidance on grant oversight policy.
- Develop specific guidance for different types of grants based on the nature of different grants issued by the CDC/ATSDR.
- Consider the appropriateness of delegating the development of oversight policy to lower levels within the CDC/ATSDR (e.g., Centers and Programs). If delegation is determined to be appropriate, the proposed policy should require formalized approval by CDC/ATSDR's top management.
- Consider the development of a more detailed guidance for the grant approval process.

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- Ensure that a mechanism is in place to periodically evaluate the appropriateness of specific oversight procedures being performed for each grant and, as needed, change the required oversight procedures.

We understand that the CDC/ATSDR is addressing the grant oversight issue and is in the process of developing revised guidance. We have been informed that revised guidance will be available during fiscal year 2002.

* * * * * * * * * * *

In addition, we considered the CDC/ATSDR's internal control over Required Supplementary Information by obtaining an understanding of its internal control, determined whether this internal control had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 and not to provide assurance on this internal control. Accordingly, we do not provide an opinion on such controls.

In addition, with respect to internal control related to performance measures reported in the Management's Discussion and Analysis (MD&A), we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions and determined whether they have been placed in operation, as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We noted other matters involving internal control over financial reporting, which we have reported to Management in a separate letter dated January 11, 2002.

This report is intended solely for the information and use of the management of the CDC/ATSDR and the Department of Health and Human Services, OMB, and Congress; and is not intended to be and should not be used by anyone other than these specified parties.

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January 11, 2002

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Report of Independent Auditors on Compliance with Laws and Regulations

To the Inspector General of the
Department of Health and Human Services, and
the Director of the Center for Disease Control and Prevention and
Agency for Toxic Substance and Disease Registry

We have audited the consolidating balance sheets of the Centers for Disease Control and Prevention (CDC) and Agency for Toxic Substance and Disease Registry (ATSDR) as of September 30, 2001, and 2000, and the related consolidating statements of net costs for the fiscal years then ended, and the consolidating statement of changes in net position, consolidated statement of financing and the combined statement of budgeting resources for the fiscal year ended September 30, 2001; and have issued our report thereon dated January 11, 2002. We conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the CDC/ATSDR is responsible for complying with laws and regulations applicable to the CDC/ATSDR. As part of obtaining reasonable assurance about whether the CDC/ATSDR's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the CDC/ATSDR. We caution that noncompliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin 01-02.

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At the request of the Office of Inspector General, Department of Health and Human Services, we performed test of compliance to determine whether the CDC/ATSDR's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the CDC/ATSDR's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the CDC/ATSDR and the Department of Health and Human Services, OMB, and Congress; and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

January 11, 2002

DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Centers for Disease Control
and Prevention (CDC)
Atlanta, GA 30033

February 12, 2002

Mr. Dan Murrin
Ernst & Young, LLP
1225 Connecticut Avenue, NW
Washington, D.C. 20036

Dear Mr. Murrin:

We have reviewed the recommendations included in the Report of Independent Auditors on Internal Control and the related Management Letter for the fiscal year ending September 30, 2001. CDC and ATSDR concur with the recommendations, and we are committed to resolving the audit issues. While the internal control report indicates that much work remains to be done, we are encouraged to see that some improvements were noted. We value the insight provided by our independent auditors, and we will make every reasonable effort to implement the recommendations.

Presently, our efforts to achieve sustained improvements are focused on two key areas: modernization of our accounting system, and upgrading the knowledge and skills of our financial staff. Our accounting system has remained much the same over the last decade. Because we fully understand that the accounting system is critical to our mission success, we have devoted substantial resources to improving our system. We are presently engaged as an active partner in the HHS initiative to implement a uniform financial management system. Concurrently, we are continuing to upgrade our existing system through such efforts as updating our system tables, automating our reimbursable billings, and completing our indirect cost allocation methodology.

Although we realize that a modern, responsive system is important, we also know that a skilled workforce is necessary for our overall success. During the last 12 months, we have significantly improved our management structure over accounting operations, and we are providing significant new opportunities for staff training and certification.

Recent events have placed renewed attention on CDC's programs, and our budgets have grown substantially. In response, we are making significant new investments in our financial system and in our staff. During the year ahead, we will continue our efforts to implement the audit recommendations and accomplish the many other financial management objectives that are critical to our mission.

Sincerely yours,

William Gimson
Associate Director for Budget and Finance
Director, Financial Management Office